



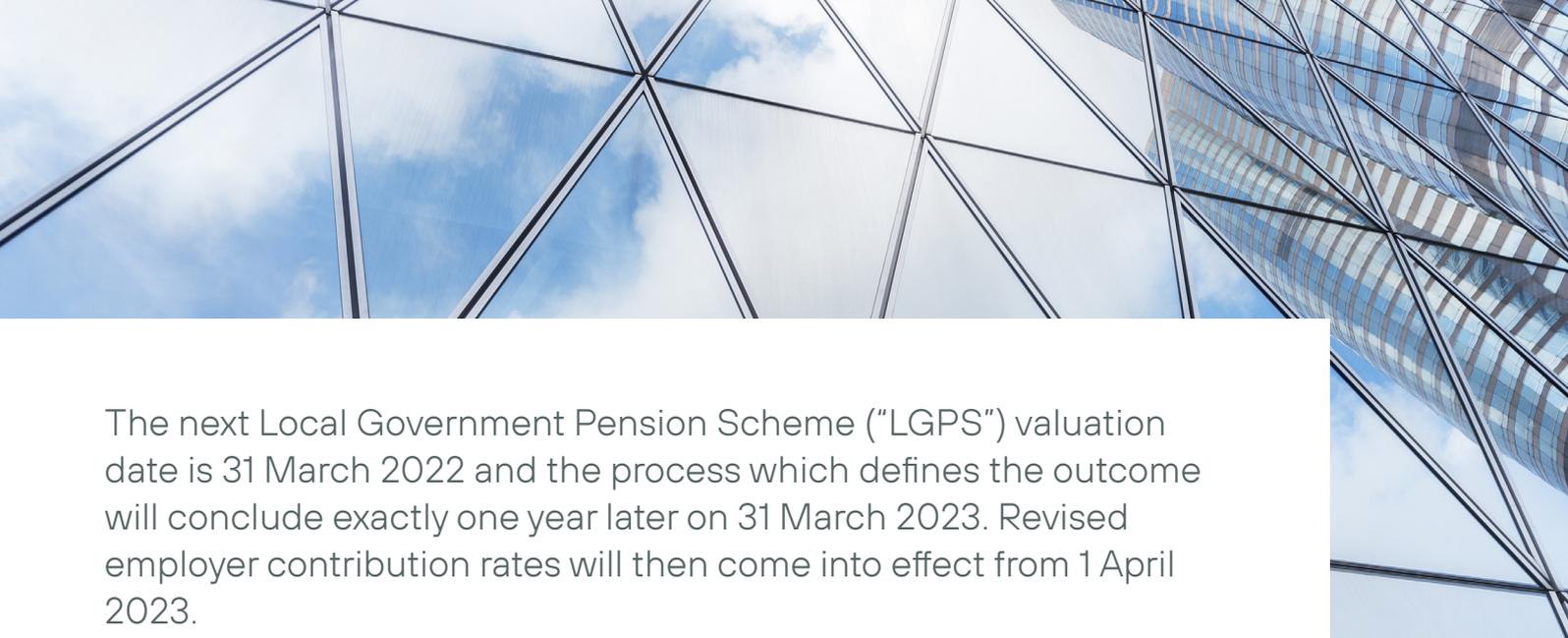
Planning for the 2022 LGPS valuation

Bulletin 1

March 2022

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The next Local Government Pension Scheme (“LGPS”) valuation date is 31 March 2022 and the process which defines the outcome will conclude exactly one year later on 31 March 2023. Revised employer contribution rates will then come into effect from 1 April 2023.

Funds and their actuaries are already making their plans. To help ensure that the process is effective and that all stakeholders get the best outcome, we will be issuing a series of 4 bulletins over the next eight months. This is the first of the series and will help to set out the process that will take place over the year.

The bulletins will cover the following key talking points for consideration during the 2022 valuation year in chronological order.



1 What is the valuation process?

An overview of the process and the expected timeframe of events. The Funding Strategy Statement and what does good engagement and consultation look like.



2 Funding snapshot – March 2022

What does the funding position look like at the valuation date, what are the implications of a surplus and what do market conditions mean for future service costs?



3 Proactive engagement between employers and the Fund

High level observations on Funding Strategy Statement changes to date, and the different consultation processes adopted. A comparison of the funding approaches taken by the four Fund Actuaries and the implications for employers.



4 First look valuation results

Helping employers to understand their results and the underlying parameters, what levers can be pulled to improve final results and are employers' objectives met?

The valuation process

This initial bulletin sets out what you need to know about the valuation process and how employers can prepare. Firstly, we recommend that you “Know your Fund”

The LGPS regulations and guidance apply to all Funds, but every Fund and their Fund actuary is different in the way they apply these. It would be ideal for there to be more transparency and consistency. However, where transparency and consistency are lacking, understanding these four key elements is crucial when it comes to understanding your risks and options:



Funding strategy statement (“FSS”)

What is the FSS and why is it important?

The FSS is specific to the individual LGPS Fund and it focuses on how employer liabilities are measured and the pace at which these liabilities are funded i.e. the contributions that are ultimately payable.

The FSS is revisited at each valuation and the methodology set out in the finalised FSS sets the Fund Actuary’s approach. Once the FSS is final, the Actuary is bound by this approach for the three years until the next valuation, and so it is key that the FSS is agreed and understood by all parties.



Key risks to employers

What are the key risks employers are exposed to?

Employers should seek to understand their current funding position, identify and quantify their key risks, and understand how they can mitigate those risks and set their objectives. Employers can seek help with this analysis and ensure they are on the front foot.



Employer consultation period

How and when can you get your views heard?

Each Fund should hold a formal employer consultation on changes to its funding approach proposed in the draft FSS, which should be “clear and transparent”.

Employers should engage in the consultation and respond for the consultation to be meaningful. A lack of response has been construed by some Funds as agreement to their proposed approach, which is not always the case.

The case study on page 5 demonstrates some key learnings on effective consultation.

It is never too early to engage and employers should be speaking to their Funds now and building a proactive dialogue and good relationship. For example, some Funds may decide not to change their funding approach in the FSS and so may not consult, and early engagement will help determine if this is the case.



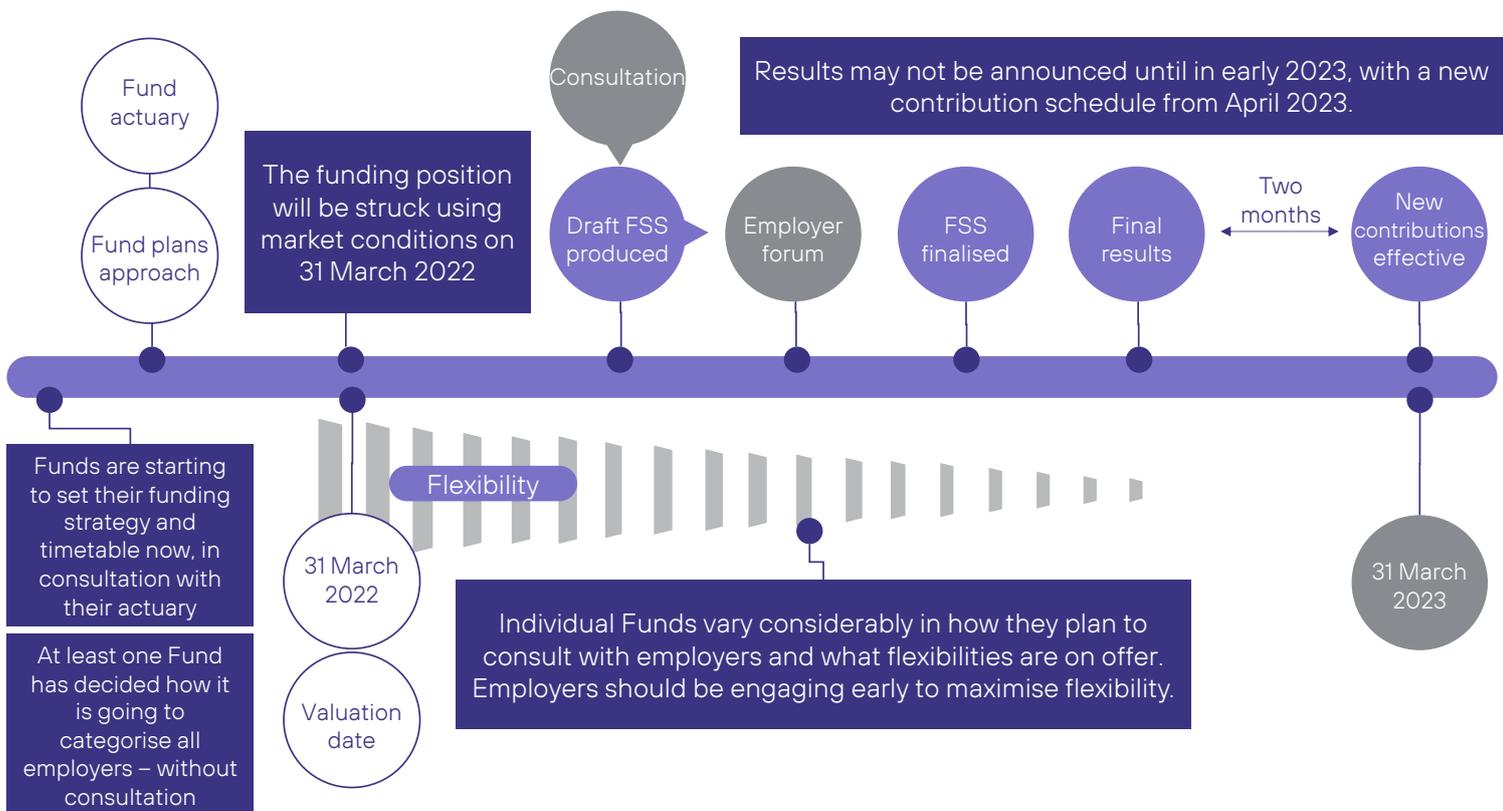
Options for flexibility

Is there room for negotiation?

Some Funds are more flexible than others. Funds might be open to negotiation if a suitable case is put forward, ideally before final decisions are made. There are a range of parameters that determine the outcome, from guarantees, security, pooling, covenant strength and employer classification by Funds so fully understanding the detail is important to know which levers can be pulled.

Understand the timetable of events

Some LGPS funds will be slower to engage with employers than others and some may choose not to consult at all. It is important to understand your Fund's timetable of events. At the last valuation, many employers had a few months between being notified of their new contribution rates and them becoming effective, leaving little time for negotiation. In summary, the 'flexibility funnel' narrows for employers as the valuation timetable progresses. We therefore recommend that you plan and engage early by understanding your opening position, the process and timeframes.



Know your fund

What should employers do immediately?

Follow the four step plan below:

01 ✓

Understand your Fund's timetable, and if and when they are planning to consult with employers so you can be ready. Make contact with your Fund and identify the key relationships during the valuation process.

02 ✓

Understand your current funding position based on the existing methodology to determine the contributions required if a valuation was carried out now.

03 ✓

Assess how risks such as market conditions, investment strategy, actuarial approach, covenant, the political landscape, data quality, and changes in regulations could potentially change this position.

04 ✓

Understand your options for negotiating with, and taking advantage of, any flexibility offered by your Fund. This could include negotiating a position that has not been considered before and leveraging your strengths.



How can Isio help?

Isio will help you navigate the process:

- Understand the risks and agree your objectives.
- Engage with and respond to consultation in a meaningful way and in a timely manner.
- Negotiate with the Fund and deliver your preferred outcome.

Case study – Funding Strategy Statement consultation



Background

An LGPS fund recently consulted with employers on proposed changes to their Funding Strategy Statement (“FSS”).

On the face of it, the main proposal amends the exit debt basis for admitted bodies, but it has wider implications for setting employer contributions for intermediate bodies (e.g., universities and housing associations still open to new hires) and other admitted bodies.

There was a lack of transparency and clarity over the proposed changes, the rationale for them, and the likely impact on employers. The documentation did not highlight the proposed changes, pose questions, provide an explanation or detail any impact analysis.

The timing of the consultation was positive as it took place four months before the valuation date, which in theory gave the Fund and employers the necessary time to consider the proposals. A meeting was held nearly 3 weeks into the consultation period, where some explanation was provided for those employers who could attend.

However, the consultation period was only five weeks in total, spanning the festive break. There was no flexibility to extend this, as a committee decision was being sought by the Fund in January.



Meaningful consultation

Whilst some employers responded in the limited time available (noting that they did not have enough information to respond in full), others simply said they needed more time and information.

For a consultation to be meaningful, we would expect that it would:

1. Provide employers a sufficient time period to consider any proposals
2. Be transparent in highlighting to employers what the proposed changes are
3. Clearly explain the rationale for any changes being proposed
4. Set out what alternative approaches were considered
5. Help employers understand the potential impact on them of the change
6. Respond to feedback and extend the consultation period, if necessary
7. Set out the results of the consultation process



Learnings for employers

1. Engage with your Fund early, before 31 March 2022, to understand their plans for engaging and consulting with employers and the timetable for doing so (taking into account the points above)
2. When a consultation is launched, review if it is transparent, clear and meaningful and if it is not, then urgently feed this back to your Fund



Contact

Please contact Isio for further support using the details below.

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